

CORNING COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2006



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## CORNING COMMUNITY SCHOOL DISTRICT

### OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b> (Before September, 2005 Election)		
Nancy Turner	President	2007
Lori Harvey	Board Member	2007
Gary Goldsmith	Board Member	2006
Ralph Morales	Board Member	2006
Anna Leonard	Board Member	2005
<b>Board of Education</b> (After September, 2005 Election)		
Nancy Turner	President	2007
Anna Leonard	Board Member	2008
Lori Harvey	Board Member	2007
Gary Goldsmith	Board Member	2006
Ralph Morales	Board Member	2006
<b>School Officials</b>		
Mike Wells	Superintendent	2006
Jodi Lyddon	District Secretary/Treasurer	2006
Rick Engel	Attorney	Indefinite



### Independent Auditor's Report

To the Board of Education  
Corning Community School District  
Corning, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Corning Community School District, Corning, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Corning Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued our report dated September 27, 2006, on our consideration of the Corning Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 13 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corning Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

September 27, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Corning Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### Financial Highlights

- General Fund revenues increased from \$4,493,640 in fiscal 2005 to \$4,785,779 in fiscal 2006, while General Fund expenditures increased from \$4,147,824 in fiscal 2005 to \$4,555,014 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$1,518,670 in fiscal 2005 to \$1,751,208 in fiscal 2006, a 15 percent increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in federal and state grant revenue in 2006. The increase in expenditures was due primarily to an addition of 1 full time equivalent (FTE) teaching staff and the increase in the negotiated salary and benefits.
- Overall, the District increased in net assets in the governmental activities of \$838,000, and decreased in the business-type activities of \$7,000, respectively.

### Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

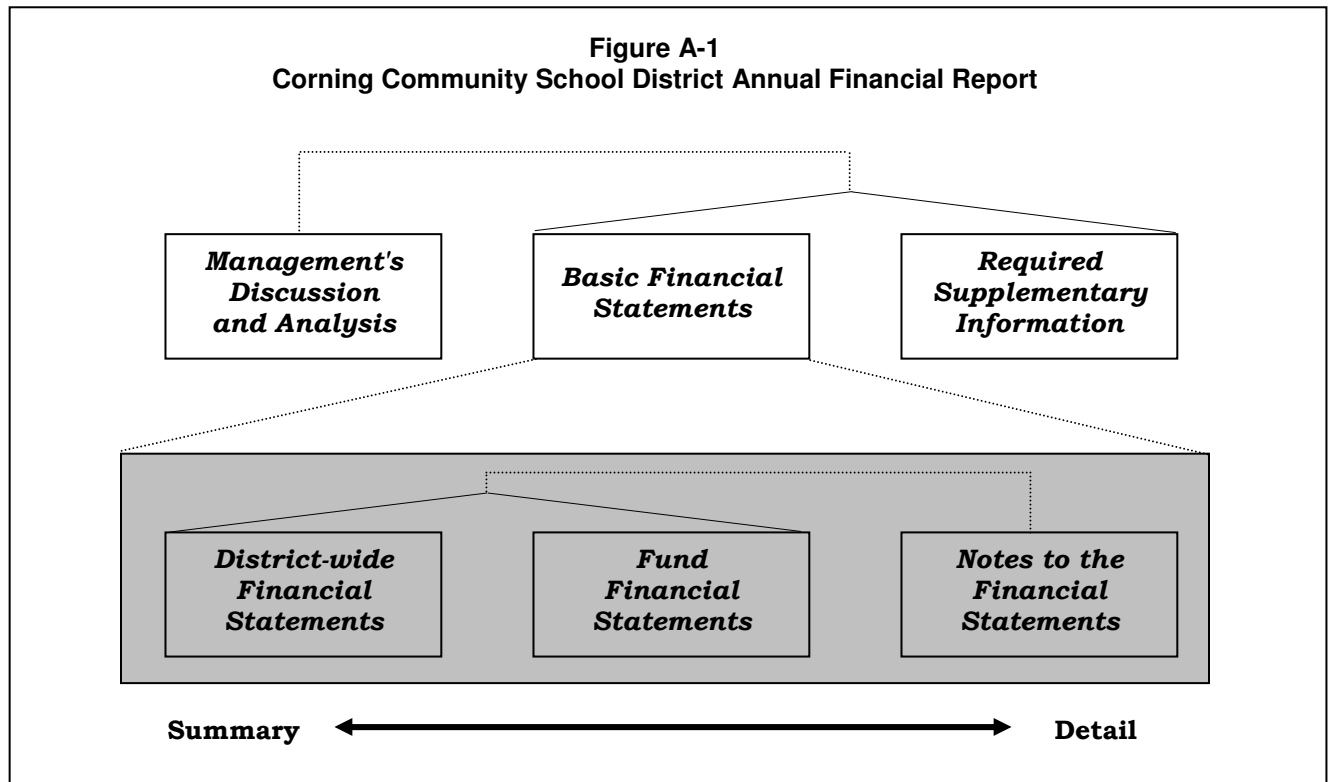




Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b> <b>Major Features of the District-Wide and Fund Financial Statements</b>				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
  - The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
  - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
  - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
  - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employees' purchases for the Hearts and Flowers fund and for the CMEA (Education Association) fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

### Financial Analysis of the District as a Whole

**Net assets** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006.

**Figure A-3**  
**Condensed Statement of Net Assets**  
**(Expressed in Thousands)**

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 5,441	4,583	37	41	5,478	4,624	18.5%
Capital assets	3,403	3,230	47	50	3,450	3,280	5.2%
Total assets	8,844	7,813	84	91	8,928	7,904	13.0%
Long-term liabilities	973	1,237	-	-	973	1,237	-21.3%
Other liabilities	3,051	2,594	-	-	3,051	2,594	17.6%
Total liabilities	4,024	3,831	-	-	4,024	3,831	5.0%
Net assets:							
Invested in capital assets, net of related debt	2,954	2,496	47	50	3,001	2,546	17.9%
Restricted	218	140	-	-	218	140	55.7%
Unrestricted	1,648	1,346	37	41	1,685	1,387	21.5%
Total net assets	\$ 4,820	3,982	84	91	4,904	4,073	20.4%

**Changes in net assets** – Figure A-4 shows the changes in net assets for the year ended June 30, 2006.

**Figure A-4**  
**Changes in Net Assets**  
**(Expressed in Thousands)**

	Governmental Activities		Business Type Activities		Total District	
	Year ended June 30,		Year ended June 30,		Year ended June 30,	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for service	\$ 563	469	74	78	637	547
Operating grants, contributions and restricted interest	740	593	113	102	853	695
Capital grants, contributions and restricted interest	-	-	-	-	-	-
General revenues:						
Property tax	2,075	1,903	-	-	2,075	1,903
Local option sales and service tax	364	193	-	-	364	193
Unrestricted state grants	2,016	2,147	-	-	2,016	2,147
Unrestricted investment earnings	85	31	-	-	85	31
Other	28	32	-	-	28	32
Total revenues	<u>5,871</u>	<u>5,368</u>	<u>187</u>	<u>180</u>	<u>6,058</u>	<u>5,548</u>
Program expenses:						
Governmental activities:						
Instruction	3,233	2,891	-	-	3,233	2,891
Support services	1,577	1,416	-	-	1,577	1,416
Non-instructional programs	-	7	194	186	194	193
Other expenses	223	233	-	-	223	233
Total expenses	<u>5,033</u>	<u>4,547</u>	<u>194</u>	<u>186</u>	<u>5,227</u>	<u>4,733</u>
Change in net assets	<u>\$ 838</u>	<u>821</u>	<u>(7)</u>	<u>(6)</u>	<u>831</u>	<u>815</u>

Property tax and unrestricted state grants account for 68 percent of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92 percent of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$5,871,000 and expenses were \$5,033,000.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
**(Expressed in Thousands)**

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,233	2,134
Support services	1,577	1,546
Non-instructional programs	-	-
Other expenses	223	49
Totals	<u>\$ 5,033</u>	<u>3,729</u>

- The cost financed by users of the District's programs was \$563,369.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$740,442.
- The net cost of governmental activities was financed with \$2,074,613 in property tax, \$364,167 in local option sales and service tax, \$2,016,065 in state foundation aid, \$84,680 in interest income, and \$1,403 in other general revenues.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$187,495 and expenses were \$194,646. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **Financial Analysis of the District's Funds**

As previously noted, the Corning Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The strong financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,321,001, above last year's ending fund balances of \$1,908,202. The primary reason for the increase in combined fund balances in fiscal 2006 was due to the increase in local option sales and service tax, property tax, and interest income.

### **Governmental Fund Highlights**

- The General Fund balance increased from \$1,518,670 to \$1,751,208. The District's growing General Fund financial position is the product of many factors. An increase during the year in local sources and federal grants and interest income resulted in an increase in revenues. The District increased in General Fund expenditures due to the increase in staff and salary and benefits.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$44,671 in fiscal 2005 to \$36,084 in fiscal 2006.
- The Capital Projects Fund balance increased from \$240,808 in fiscal 2005 to \$351,640 in fiscal 2006.
- The Management Fund balance increased from \$4,526 in fiscal year 2005 to \$102,805 in fiscal 2006.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$91,569 in fiscal 2005 to \$84,418 in fiscal 2006, representing a decrease of approximately 8 percent.

## Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 42-44.

### Legal Budgetary Highlights

The District's total actual receipts were \$432,366 more than the total budgeted receipts, a variance of 7%. The most significant change resulted from the District receiving additional federal and state grant revenue.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2006, the District had invested \$3,449,645, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year exceeded \$226,542.

The original cost of the District's capital assets were \$7,031,062. Governmental funds account for \$6,920,305 with the remainder of \$110,757 in the Proprietary, School Nutrition Fund.

**Figure A-6**  
**Capital Assets, net of Depreciation**  
**(Expressed in Thousands)**

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 205	205	-	-	205	205	0.0%
Construction in progress	-	-	-	-	-	-	
Buildings	2,369	2,424	-	-	2,369	2,424	-2.3%
Improvements other than buildings	422	221	-	-	422	221	91.0%
Furniture and equipment	407	380	47	50	454	430	5.6%
Totals	\$ 3,403	3,230	47	50	3,450	3,280	5.2%

## Long-Term Debt

At June 30, 2006, the District had \$800,000, in general obligation bonds and \$173,000 for an early-retirement plan. This represents an decrease of approximately 21.3 percent from last year. More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

**Figure A-7**  
**Outstanding Long-Term Obligations**  
**(Expressed in Thousands)**

	<div>Total District June 30, 20062005</div>		<div>Total Change June 30, 2005-2006</div>
General obligation bonds	\$	800975	-17.9%
Early retirement		173262	-34.0%
Totals	\$	9731,237	-21.3%

## Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Historically, the District has entered into annual contracts with its collective bargaining unit. Settlements in excess of new money or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. Corresponding cost reductions will be made to offset the cost of negotiated settlements and other cost increases.
- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education.
- Increased health insurance cost has and will continue to impact the District.

## Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jodi Lyddon, District Secretary/Treasurer and Business Manager, Corning Community School District, PO Box 229, Corning, Iowa, 50841.

## **Basic Financial Statements**



CORNING COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2006

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 3,312,980	35,859	3,348,839
Receivables:			
Property tax:			
Delinquent	40,609	-	40,609
Succeeding year	1,926,337	-	1,926,337
Accounts	188	-	188
Accrued interest	-	-	-
Due from other governments	160,695	-	160,695
Inventories	-	1,561	1,561
Capital assets, net of accumulated depreciation (note 3)	3,402,647	46,998	3,449,645
<b>Total assets</b>	<b>8,843,456</b>	<b>84,418</b>	<b>8,927,874</b>
<b>Liabilities</b>			
Excess of warrants over bank balance	667,928	-	667,928
Accounts payable	52,725	-	52,725
Salaries and benefits payable	378,746	-	378,746
Accrued interest payable	7,000	-	7,000
Deferred revenue:			
Succeeding year property tax	1,926,337	-	1,926,337
Other	18,412	-	18,412
Long-term liabilities (note 4):			
Portion due within one year:			
Bonds payable	185,000	-	185,000
Early retirement	75,660	-	75,660
Portion due after one year:			
Bonds payable	615,000	-	615,000
Early retirement	97,095	-	97,095
<b>Total liabilities</b>	<b>4,023,903</b>	<b>-</b>	<b>4,023,903</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,954,287	46,998	3,001,285
Restricted for:			
Management levy	102,805	-	102,805
Physical plant and equipment levy	36,084	-	36,084
Other special revenue purposes	78,390	-	78,390
Unrestricted	1,647,987	37,420	1,685,407
<b>Total net assets</b>	<b>\$ 4,819,553</b>	<b>84,418</b>	<b>4,903,971</b>

See notes to financial statements.

CORNING COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2006

Functions/Programs	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 2,035,470	286,082	294,512	-
Special instruction	824,140	26,641	214,772	-
Other instruction	373,668	250,646	27,226	-
	3,233,278	563,369	536,510	-
Support Service:				
Student services	69,619	-	-	-
Instructional staff services	193,765	-	-	-
Administration services	551,520	-	-	-
Operating and maintenance of plant services	437,352	-	30,305	-
Transportation services	324,353	-	-	-
	1,576,609	-	30,305	-
Non-instructional programs	267	-	-	-
Other expenditures:				
Long-term debt interest	49,310	-	-	-
AEA flowthrough	173,627	-	173,627	-
	222,937	-	173,627	-
Total governmental activities	5,033,091	563,369	740,442	-
Business type activities:				
Non-instructional programs:				
Nutrition services	194,646	74,162	113,192	-
	194,646	74,162	113,192	-
Total primary government	\$ 5,227,737	637,531	853,634	-

Exhibit B

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental</u>	<u>Business type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
(1,454,876)	-	(1,454,876)
(582,727)	-	(582,727)
(95,796)	-	(95,796)
(2,133,399)	-	(2,133,399)
(69,619)	-	(69,619)
(193,765)	-	(193,765)
(551,520)	-	(551,520)
(407,047)	-	(407,047)
(324,353)	-	(324,353)
(1,546,304)	-	(1,546,304)
(267)	-	(267)
(49,310)	-	(49,310)
-	-	-
(49,310)	-	(49,310)
(3,729,280)	-	(3,729,280)
-	(7,292)	(7,292)
-	(7,292)	(7,292)
(3,729,280)	(7,292)	(3,736,572)

Exhibit B

CORNING COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2006

	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Totals continued from previous pages	\$ 5,227,737	637,531	853,634	-
General Revenues:				
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Gifts to Corning Community School District				
Gain on sale of assets				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				
See notes to financial statements.				

Exhibit B

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
Governmental Activities	Business type Activities	Total
(3,729,280)	(7,292)	(3,736,572)
1,927,707	-	1,927,707
18,735	-	18,735
128,171	-	128,171
364,167	-	364,167
2,016,065	-	2,016,065
84,680	141	84,821
1,403	-	1,403
25,161	-	25,161
773	-	773
4,566,862	141	4,567,003
837,582	(7,151)	830,431
3,981,971	91,569	4,073,540
\$ 4,819,553	84,418	4,903,971

CORNING COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Management	Debt Service
<b>Assets and Other Debits</b>			
Cash and pooled investments	\$ 2,093,748	173,163	37,615
Receivables:			
Property tax:			
Current year delinquent	32,199	5,302	396
Succeeding year	1,480,484	315,000	-
Accounts	188	-	-
Due from other governments	63,255	-	-
<b>Total assets and other debits</b>	<b>\$ 3,669,874</b>	<b>493,465</b>	<b>38,011</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Excess of outstanding warrants over bank balance	\$ -	-	37,137
Accounts payable	41,024	-	-
Salaries and benefits payable	378,746	-	-
Early retirement payable (note 4)	-	75,660	-
Deferred revenue:			
Succeeding year property tax	1,480,484	315,000	-
Other	18,412	-	-
Total liabilities	<b>1,918,666</b>	<b>390,660</b>	<b>37,137</b>
Fund balances:			
Reserved for:			
Debt service	-	-	874
Unreserved:			
Designated for special purposes by the Board	300,000	-	-
Undesignated	1,451,208	102,805	-
Total fund balances	<b>1,751,208</b>	<b>102,805</b>	<b>874</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,669,874</b>	<b>493,465</b>	<b>38,011</b>

See notes to financial statements.

Exhibit C

Capital Projects	PPEL	Nonmajor Special Revenue	Total
615,461	312,937	80,056	3,312,980
-	2,712	-	40,609
-	130,853	-	1,926,337
-	-	-	188
93,935	3,505	-	160,695
709,396	450,007	80,056	5,440,809
357,756	273,035	-	667,928
-	10,035	1,666	52,725
-	-	-	378,746
-	-	-	75,660
-	130,853	-	1,926,337
-	-	-	18,412
357,756	413,923	1,666	3,119,808
-	-	-	874
-	-	-	300,000
351,640	36,084	78,390	2,020,127
351,640	36,084	78,390	2,321,001
709,396	450,007	80,056	5,440,809

CORNING COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2006

**Total fund balances of governmental funds (Exhibit C)** \$ 2,321,001

***Amounts reported for governmental activities in the  
statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

3,402,647

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.

(7,000)

Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

(897,095)

**Net assets of governmental activities (Exhibit A)**

\$ 4,819,553

See notes to financial statements.



**Corning Community School District**

CORNING COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year ended June 30, 2006

	General	Management	Debt Service
Revenues:			
Local sources:			
Local tax	\$ 1,677,310	250,396	18,735
Tuition	253,543	-	-
Other	125,812	8,516	666
State sources	2,429,691	183	14
Federal sources	299,423	-	-
Total revenues	4,785,779	259,095	19,415
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,978,267	91,970	-
Special instruction	814,089	-	-
Other instruction	106,415	-	-
	2,898,771	91,970	-
Support services:			
Student services	69,169	-	-
Instructional staff services	178,175	-	-
Administration services	516,188	25,056	-
Operation and maintenance of plant services	410,479	23,551	-
Transportation services	308,605	18,972	-
	1,482,616	67,579	-
Non-instructional programs	-	267	-
Other expenditures:			
Facilities acquisition	-	-	-
Long-term debt:			
Principal	-	-	175,000
Interest and fiscal charges	-	-	50,890
AEA flowthrough	173,627	-	-
	173,627	-	225,890
Total expenditures	4,555,014	159,816	225,890
Excess (deficiency) of revenues over (under) expenditures	230,765	99,279	(206,475)
Other financing sources (uses):			
Operating transfers in (out)	1,000	(1,000)	175,000
Sale of equipment	773	-	-
Total other financing sources (uses)	1,773	(1,000)	175,000
Net change in fund balances	232,538	98,279	(31,475)
Fund balances beginning of year	1,518,670	4,526	32,349
Fund balances end of year	\$ 1,751,208	102,805	874

See notes to financial statements.

Exhibit E

Capital Projects	PPEL	Nonmajor Special Revenue	Total
364,167	128,171	-	2,438,779
-	-	-	253,543
12,732	7,028	264,914	419,668
-	94	-	2,429,982
-	28,505	-	327,928
376,899	163,798	264,914	5,869,900
-	-	-	2,070,237
-	-	-	814,089
-	-	253,702	360,117
-	-	253,702	3,244,443
-	-	-	69,169
-	-	-	178,175
-	-	-	541,244
-	-	-	434,030
-	-	-	327,577
-	-	-	1,550,195
-	-	-	267
91,067	172,385	-	263,452
-	-	-	175,000
-	-	-	50,890
-	-	-	173,627
91,067	172,385	-	662,969
91,067	172,385	253,702	5,457,874
285,832	(8,587)	11,212	412,026
(175,000)	-	-	-
-	-	-	773
(175,000)	-	-	773
110,832	(8,587)	11,212	412,799
240,808	44,671	67,178	1,908,202
351,640	36,084	78,390	2,321,001

CORNING COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year ended June 30, 2006

**Net change in fund balances - total governmental funds (Exhibit E)** **\$ 412,799**

***Amounts reported for governmental activities in the  
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 392,990	
Depreciation expense	<u>(220,447)</u>	172,543

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		175,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		1,580
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		<u>75,660</u>
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<b>Change in net assets of governmental activities (Exhibit B)</b>		<b><u><u>\$ 837,582</u></u></b>
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See notes to financial statements.

CORNING COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2006

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 35,859
Inventories	1,561
Capital assets, net of accumulated depreciation	<u>46,998</u>
<b>Total assets</b>	<u>84,418</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	46,998
Unrestricted	<u>37,420</u>
<b>Total net assets</b>	<u><u>\$ 84,418</u></u>

See notes to financial statements.

CORNING COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
Year ended June 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources	
Charges for service	<u>\$ 74,162</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	81,417
Benefits	19,792
Purchased services	2,687
Supplies	84,655
Depreciation	6,095
Total operating expenses	<u>194,646</u>
Operating loss	<u>(120,484)</u>
Non-operating revenues:	
State sources	3,058
Federal sources	110,134
Local sources	141
Total non-operating revenues	<u>113,333</u>
Changes in net assets	(7,151)
Net assets beginning of year	<u>91,569</u>
Net assets end of year	<u><u>\$ 84,418</u></u>

See notes to financial statements.

CORNING COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year ended June 30, 2006

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 74,162
Cash payments to employees for services	(101,209)
Cash payments to suppliers for goods or services	(73,071)
Net cash used by operating activities	<u>(100,118)</u>
Cash flows from non-capital financing activities:	
State grants received	3,058
Federal grants received	96,328
Net cash provided by non-capital financing activities	<u>99,386</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(2,625)
Cash flows from investing activities:	
Interest on investments	<u>141</u>
Net decrease in cash and cash equivalents	(3,216)
Cash and cash equivalents at beginning of year	<u>39,075</u>
Cash and cash equivalents at end of year	<u><u>\$ 35,859</u></u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (120,484)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	13,806
Depreciation	6,095
Decrease in inventories	465
Net cash used by operating activities	<u><u>\$ (100,118)</u></u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Statement of Net Assets:</b>	
Current assets:	
Cash and investments	\$ 35,859
Cash and cash equivalents at year end	<u><u>\$ 35,859</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received federal commodities valued at \$13,806.

See notes to financial statements.

CORNING COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2006

	Private Purpose Trust
	Scholarship
<b>Assets</b>	
Cash and pooled investments	\$ 88,048
Accrued interest receivable	-
<b>Total assets</b>	<b>88,048</b>
<b>Liabilities</b>	
Accounts payable	-
<b>Total liabilities</b>	<b>-</b>
<b>Net assets</b>	
Reserved for scholarships	<u><u>\$ 88,048</u></u>

See notes to financial statements.



Exhibit K

CORNING COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
Year ended June 30, 2006

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest income	\$ 41,118
Total additions	<u>41,118</u>
Deductions:	
Support services:	
Scholarships awarded	<u>36,583</u>
Change in net assets	4,535
Net assets beginning of year	<u>83,513</u>
Net assets end of year	<u><u>\$ 88,048</u></u>

See notes to financial statements.

## CORNING COMMUNITY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### (1) Summary of Significant Accounting Policies

Corning Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Corning, Iowa, and the predominate agricultural territory in Adams and Taylor counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

##### A. Reporting Entity

For financial reporting purposes, Corning Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Corning Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams County Assessor's Conference Board.

##### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly

## CORNING COMMUNITY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Fund is used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in a separate fund.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The PPEL Fund is used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in a separate fund.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as

## CORNING COMMUNITY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

# CORNING COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

CORNING COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent federal grant monies.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

Diversified Portfolio	\$2,570,250
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The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

CORNING COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Credit risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

The District investment in Wisconsin Electric Company common stock and Verizon Corporation common stocks relates to a gift of the stocks as a scholarship investment. Terms of the gift require the school to hold the stock permanently and the dividends received are to be used for the Effie Akin Award. The fair market values of these investments at June 30, 2006 were \$14,496 and \$4,086 respectively.

CORNING COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**(3) Capital Assets**

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance beginning of year	Increases	Decreases	Balance end of year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 204,689	-	-	204,689
Total capital assets not being depreciated	204,689	-	-	204,689
Capital assets being depreciated:				
Buildings	3,991,611	19,212	-	4,010,823
Improvements other than buildings	621,681	230,625	-	852,306
Furniture and equipment	1,709,334	143,153	-	1,852,487
Total capital assets being depreciated	6,322,626	392,990	-	6,715,616
Less accumulated depreciation for:				
Buildings	1,567,874	73,869	-	1,641,743
Improvements other than buildings	400,271	29,741	-	430,012
Furniture and equipment	1,329,066	116,837	-	1,445,903
Total accumulated depreciation	3,297,211	220,447	-	3,517,658
Total capital assets being depreciated, net	3,025,415	172,543	-	3,197,958
Governmental activities capital assets, net	\$ 3,230,104	172,543	-	3,402,647
<b>Business type activities:</b>				
Furniture and equipment	\$ 108,132	2,625	-	110,757
Less accumulated depreciation	57,664	6,095	-	63,759
Business type activities capital assets, net	\$ 50,468	(3,470)	-	46,998

Depreciation expense was charged to the following functions:

<b>Governmental activities:</b>	
Instruction:	
Regular	\$ 110,643
Special	10,051
Other	13,551
Support services:	
Student	450
Instructional staff	15,590
Administration	10,276
Operation and maintenance	3,322
Transportation	56,564
Total depreciation expense - governmental activities	\$ 220,447
<b>Business type activities:</b>	
Food service operations	\$ 6,095



CORNING COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**(4) Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 975,000	-	175,000	800,000	185,000
Early retirement	261,582	-	88,827	172,755	75,660
	<u>\$ 1,236,582</u>	<u>-</u>	<u>263,827</u>	<u>972,755</u>	<u>260,660</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Bond Issue of February 28, 2000				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	5.25%	\$ 185,000	41,702	226,702
2008	5.15%	195,000	31,990	226,990
2009	5.20%	205,000	21,947	226,947
2010	5.25%	215,000	11,288	226,288
Total		<u>\$ 800,000</u>	<u>106,927</u>	<u>906,927</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 25% of the District's base salary calculated by using the current year regular salary schedule. Early retirement benefits paid during the year ended June 30, 2006, totaled \$88,827.

**(5) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004, were \$158,336, \$145,993, and \$153,151, respectively, equal to the required contributions for each year.

CORNING COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**(6) Risk Management**

Corning Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$173,627 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$175,000
General	Management	1,000

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### **Required Supplementary Information**

CORNING COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN BALANCES - BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual
Revenues:		
Local sources	\$ 3,111,990	74,303
State sources	2,429,982	3,058
Federal sources	327,928	110,134
Total revenues	<u>5,869,900</u>	<u>187,495</u>
Expenditures:		
Instruction	3,244,443	-
Support services	1,550,195	-
Non-instructional programs	267	194,646
Other expenditures	662,969	-
Total expenditures	<u>5,457,874</u>	<u>194,646</u>
Excess (deficiency) of revenues over (under) expenditures	412,026	(7,151)
Other financing sources	<u>773</u>	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	412,799	(7,151)
Balances beginning of year	<u>1,908,202</u>	<u>91,569</u>
Balances end of year	<u><u>\$ 2,321,001</u></u>	<u><u>84,418</u></u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Variance Favorable (Unfavorable)
	Original	Final	
3,186,293	2,720,379	2,720,379	465,914
2,433,040	2,501,650	2,501,650	(68,610)
438,062	403,000	403,000	35,062
6,057,395	5,625,029	5,625,029	432,366
3,244,443	4,584,486	4,584,486	1,340,043
1,550,195	1,614,043	1,714,000	163,805
194,913	319,084	319,084	124,171
662,969	815,755	815,755	152,786
5,652,520	7,333,368	7,433,325	1,780,805
404,875	(1,708,339)	(1,808,296)	
773	-	-	
405,648	(1,708,339)	(1,808,296)	
1,999,771	1,794,643	1,794,643	
2,405,419	86,304	(13,653)	

CORNING COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted.

## **Other Supplementary Information**

CORNING COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School Drama/Musical	\$ 1,475	3,621	2,221	2,875
Instrumental Band K-12	-	2,818	2,818	-
Athletics-General	3,130	26,453	20,473	9,110
Cross Country	-	3,253	3,253	-
Tennis	323	764	1,087	-
Golf	-	1,018	1,018	-
Boys Basketball	626	6,511	7,137	-
Football	1,565	12,151	13,716	-
Baseball	991	3,728	4,142	577
Boys Track	25	4,807	4,832	-
Wrestling	142	4,917	5,059	-
John Harris Tourney	5,405	9,490	7,972	6,923
Girls Basketball	2,761	4,168	6,929	-
Volleyball	217	5,972	6,189	-
Softball	734	7,265	6,459	1,540
Girls Track	25	10,672	10,697	-
Art	377	-	-	377
K-6 Book Fair	6,454	3,253	2,452	7,255
Cheerleaders	530	1,978	2,190	318
FFA	4,977	12,889	12,616	5,250
FHA	54	4,980	5,034	-
Industrial Arts	1,359	-	-	1,359
Math Club	31	-	-	31
Peer Helping	118	-	-	118
K-6 Special Needs	754	1,383	1,449	688
Foreign Language Club	20	220	192	48
TAG	31	-	-	31
Concessions	3,317	21,258	21,831	2,744
Class of 2007	2,770	4,674	4,082	3,362
Class of 2008	1,607	5,922	7,458	71
Class of 2009	-	182	107	75
Class of 2010	-	125	125	-
Junior High Student Council	1,071	1,028	610	1,489
Student Senate	721	1,416	1,135	1,002
Junior High Teacher's Lounge	(1)	600	394	205
Touch	379	-	-	379
Y-Teens	597	4,520	4,166	951
Yearbook	4,909	8,702	7,064	6,547
Activity Tickets	165	8,314	8,479	-
Interest on investments	1,717	899	2,364	252
School Pictures	1,164	-	908	256
High School Pop Fund	1,140	3,033	3,590	583
Wells Tech	145	-	-	145
K-6 Student Council	295	240	240	295
High School Communiters	446	5,375	296	5,525
Morris DC Trip	729	48,025	47,737	1,017
Corning Cruisers	75	-	-	75
Library	2,375	228	-	2,603



## Schedule 1

CORNING COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
FCA	-	83	40	43
High School Horticulture	5,654	431	375	5,710
Character Counts K-6	-	766	766	-
K-6 Box Top	621	6,809	6,826	604
3rd Grade Landscape	1,179	1,225	74	2,330
Alumni Newsletter	3,660	8,091	6,441	5,310
Adult Ed-Guidance	7	324	324	7
Special Projects	-	220	220	-
K-6 Teacher's Lounge	312	113	115	310
Total	<u>\$ 67,178</u>	<u>264,914</u>	<u>253,702</u>	<u>78,390</u>

See accompanying independent auditor's report.

CORNING COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,438,779	2,096,295	1,965,807	1,818,126
Tuition	253,543	260,314	231,150	196,299
Other	419,668	264,776	182,383	205,293
State sources	2,429,982	2,532,028	2,573,835	2,507,573
Federal sources	327,928	209,707	322,577	313,096
Total	<u>\$ 5,869,900</u>	<u>5,363,120</u>	<u>5,275,752</u>	<u>5,040,387</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 2,070,237	1,606,933	1,733,517	1,900,787
Special instruction	814,089	639,566	811,822	861,851
Other instruction	360,117	743,048	487,984	332,406
Support services:				
Student services	69,169	141,540	234,329	128,292
Instructional staff services	178,175	114,545	31,178	67,828
Administration services	541,244	513,085	477,168	500,588
Operation and maintenance of plant services	434,030	343,602	331,511	328,200
Transportation services	327,577	263,725	228,499	255,123
Food service operations	-	6,947	12,393	12,393
Non-instructional programs	267	-	-	-
Other expenditures:				
Facilities acquisition	263,452	230,877	100,177	150,873
Long-term debt:				
Principal	175,000	165,000	155,000	150,000
Interest and other charges	50,890	59,553	67,690	75,085
AEA flowthrough	173,627	175,232	179,413	185,506
Total	<u>\$ 5,457,874</u>	<u>5,003,653</u>	<u>4,850,681</u>	<u>4,948,932</u>

See notes to financial statements.

**Van Maanen  
& ASSOCIATES, P.C.**

**Certified Public Accountants**

705 Main St.  
Pella, IA 50219  
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of  
Corning Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Corning Community School District, Corning, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents and have issued our report thereon dated September 27, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Corning Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Corning Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Corning Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

September 27, 2006

CORNING COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2006

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**REPORTABLE CONDITIONS**

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were done by the same person.

Recommendation - We realize that segregation of duties is difficult with a limited number of office employees. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

**Part III: Findings and Questioned Costs for Federal Awards:**

Not applicable since less than \$500,000 in federal awards.

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-06 Certified Budget - Disbursements for the year ended June 30, 2006, did not exceed the amounts budgeted.

IV-B-06 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - No business transactions were noted between the District and District officials or employees.

CORNING COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2006

- IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-06 Board Minutes - No transactions were noted requiring Board approval which had not been approved by the Board.
- IV-G-06 Certified Enrollment - No variances were noted in the basic enrollment data certified to the Department of Education.
- IV-H-06 Deposits and Investments - No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy.

It was noted that the District has investments in Wisconsin Electric Co. and Verizon common stock, investments not in compliance with the District's investment policy. However, it was also noted that the terms of the gifts in 1983 and 1996 require that the stock be permanently held by the District and that only the dividends are available for disbursement for the Effie Akin Award. Therefore, the investments are maintained in compliance with the terms of the gifts.

- IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.